

**Central Montcalm Public School
Stanton, Michigan**

FINANCIAL STATEMENTS

June 30, 2006

Central Montcalm Public School

Stanton, Michigan

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June 30, 2006

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Central Montcalm Public School

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INDEPENDENT AUDITOR'S REPORT

To the Board of Education
Central Montcalm Public School
Stanton, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Central Montcalm Public School as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Central Montcalm Public School's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the aggregate remaining fund information of Central Montcalm Public School as of June 30, 2006, and the respective changes in financial position, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 2, 2006 on our consideration of Central Montcalm Public School's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The administration's discussion and analysis and budgetary comparison information as identified in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Central Montcalm Public School's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 2, 2006

Central Montcalm Public School

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

This section of the Central Montcalm Public School's annual financial report presents our discussion and analysis of the School District's financial performance during the year ended June 30, 2006. Please read it in conjunction with the School District's financial statements, which immediately follow this section.

Using this Annual Report

This annual report consists of a series of financial statements and notes to those statements. These statements are organized so the reader can understand Central Montcalm Public School financially as a whole. The **district-wide** financial statements provide information about the activities of the whole School District, presenting both an aggregate view of the School District's finances and a longer-term view of those finances. The **fund** financial statements provide the next level of detail. For governmental activities, these statements tell how services were financed in the short-term as well as what remains for future spending. The fund financial statements look at the School District's operations in more detail than the district-wide financial statements by providing information about the School District's most significant (major) fund, the General Fund with all other funds presented in one column as nonmajor funds. The remaining statement, the statement of fiduciary (Student Activities Agency) net assets, presents financial information about activities for which the School District acts solely as an agent for the benefit of students and parents.

District-wide Financial Statements

One of the most important questions asked about the School District is, "As a whole, what is the School District's financial condition as a result of the year's activities?" The statement of net assets and the statement of activities, which appear first in the School District's financial statements, report information on the School District as a whole and its activities in a way that helps you answer this question. We prepare these statements to include all assets and liabilities, using the accrual basis of accounting, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid.

These two statements report the School District's net assets - the difference between assets and liabilities, as reported in the statement of net assets - as one way to measure the School District's financial health or financial position. Over time, increases or decreases in the School District's net assets - as reported in the statement of activities - are indicators of whether its financial health is improving or deteriorating. The relationship between revenues and expenses is the School District's operating results. However, the School District's goal is to provide services to our students, not to generate profits as commercial entities do. One must consider many other non-financial factors, such as the quality of the education provided, the condition of the district's assets and the safety of the schools, to assess the overall health of the School District.

The statement of net assets and the statement of activities report the governmental activities for the School District, which encompass all of the School District's services, including instruction, support services, community services, athletics and food services. Property taxes, unrestricted State aid (foundation allowance revenue), and State and federal grants finance most of these activities.

Fund Financial Statements

The School District's fund financial statements provide detailed information about the most significant funds - not the School District as a whole. Some funds are required to be established by State law and by bond covenants. However, the School District establishes many other funds to help it control and manage money for particular purposes (the Food Service and Athletics Funds are examples) or to show that it is meeting legal responsibilities for using certain taxes, grants, and other money (such as bond-funded construction funds used for voter-approved capital projects). The governmental funds of the School District use the following accounting approach:

Central Montcalm Public School

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

Governmental funds - All of the School District's services are reported in governmental funds. Governmental fund reporting focuses on showing how money flows into and out of funds and the balances left at year-end that are available for spending. They are reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the operations of the School District and the services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the School District's programs. We describe the relationship (or differences) between governmental activities (reported in the statement of net assets and the statement of activities) and governmental funds in a reconciliation.

The School District as Trustee - Reporting the School District's Fiduciary Responsibilities

The School District is the trustee, or fiduciary, for its student activity funds. All of the School District's fiduciary activities are reported in a separate statement of fiduciary net assets. We exclude these activities from the School District's other financial statements because the School District cannot use these assets to finance its operations. The School District is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The School District as a Whole

Recall that the statement of net assets provides the perspective of the School District as a whole. Table 1 provides a summary of the School District's net assets as of June 30, 2006 with comparative information as of June 30, 2005:

Table 1

	Statement of Net Assets	
	June 30, 2006 <i>(millions)</i>	June 30, 2005 <i>(millions)</i>
Assets		
Current and other assets	\$ 5.3	\$ 5.7
Capital Assets	<u>27.1</u>	<u>27.9</u>
Total Assets	32.4	33.6
Liabilities		
Current Liabilities	4.6	4.1
Noncurrent Liabilities	<u>22.1</u>	<u>23.3</u>
Total Liabilities	<u>26.7</u>	<u>27.4</u>
Net Assets		
Invested in capital assets, net of related debt	4.3	5.0
Restricted	.3	.7
Unrestricted	<u>1.1</u>	<u>.5</u>
	<u>\$ 5.7</u>	<u>\$ 6.2</u>

The analysis in Table 1 focuses on the net assets of the district. The affect on net assets as a result of the fiscal year activities is reflected in Table 2.

Central Montcalm Public School

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

The School District's net assets were \$6.2 million at June 30, 2005 and \$5.7 million at June 30, 2006 (Table 1). The \$0.5 million reduction in net assets is due to excess asset depreciation over capital expenditures of (\$.8) million, additional accrued interest expense on the School Bond Loan Fund (\$.1) million and long-term debt principal retirement of \$1.25 million.

Capital assets, net of related debt totaling \$4.3 million, compares the original cost, less depreciation of the School District's capital assets, to long-term debt used to finance the acquisition of those assets. Capital assets also reflect investments in capital assets from operating funds. Most of the debt will be repaid from voter-approved property taxes collected as the debt service comes due. Durant loan obligations of the State are included in Long-Term obligations of the School District. Restricted net assets are reported separately to show legal constraints from debt covenants and enabling legislation that limit the School District's ability to use those net assets for day-to-day operations. Restricted Net Assets reflect the Debt Service fund balances less accrued interest on long-term debt as of June 30, 2006. Unrestricted Net Assets reflect those assets available to the school district for use in its operation.

The \$.9 million in unrestricted net assets of governmental activities represents the *accumulated* results of all past years' operations. The unrestricted net assets balance enables the School District to meet working capital and cash flow requirements as well as to provide for future uncertainties. The operating results of the General Fund will have a significant impact on the change in unrestricted net assets from year to year.

The results of this year's operations for the School District as a whole are reported in the condensed statement of activities (Table 2), which shows the changes in net assets for fiscal year 2005/06. Depreciation costs are allocated to areas of activities (Instruction, Support Services, Food Services, etc.). This allocation of depreciation expense is intended to reflect the true cost of these activities.

Governmental Activities
(in millions)

Table 2

	Year Ended,	
	June 30, 2006	June 30, 2005
Revenue		
Program Revenues:		
Charges for services	\$ 0.3	\$ 0.3
Operating Grants	2.5	2.4
General Revenues:		
Property Taxes	2.8	2.6
State foundation allowance	12.1	12.2
Other	<u>0.2</u>	<u>0.1</u>
Total Revenue	17.9	17.6
Functions/Program Expenses		
Instruction	10.0	9.5
Support Services	6.1	6.6
Food Services	0.7	0.6
Athletics and community service	0.3	0.2
Payments to other districts	.2	0.3
Interest and costs on long-term debt	<u>1.1</u>	<u>1.6</u>
Total Expenses	<u>18.4</u>	<u>18.8</u>
Decrease in Net Assets	<u>\$(0.5)</u>	<u>\$(1.2)</u>

Central Montcalm Public School

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

The 2005/06 fiscal year presented a number of challenges for the school district, particularly in the General Fund. It was anticipated that expenses would outpace revenues. There continues to be a strain on the State's ability to adequately fund public schools. Expenses continue to increase without a corresponding increase in revenues and there are continued double digit increases in health insurance costs. Other factors that affect the value of Net Assets are year-to-year fund balances in the debt service funds, amounts of debt outstanding, as well as the fund balance in the School Service funds at year-end.

As reported in the Statement of Activities, the cost of all of our *governmental* activities this year was \$18.4 million. Certain activities were partially funded from those who benefited from the programs (\$.3 million charges for services) or by other governments and organizations that subsidized certain programs with operating grants and contributions (\$2.5 million). We paid for the remaining "public benefit" portion of our governmental activities with \$2.8 million in taxes (for General & Debt funds) and \$12.3 million in State foundation allowance and other revenues, i.e., interest and general entitlements. The decrease in Net Assets is mainly due to excess depreciation over capital expenditures (\$.8 million) and the planned use of General Fund, Fund Equity (\$.9 million) and additional accrued interest expense on the School Bond Loan Fund (\$.1).

As discussed above, the net cost shows the financial burden that was placed on the State and the School District's taxpayers by each of these functions. Since property taxes for operations and unrestricted State aid constitute the vast majority of district operating revenue sources, the Board of Education and administration must annually evaluate the needs of the School District and balance those needs with State-prescribed available unrestricted resources.

The School District's Funds

As we noted earlier, the School District uses funds to help it control and manage money for particular purposes. Looking at funds helps the reader consider whether the School District is being accountable for the resources taxpayers and others provide to it and may provide more insight into the School District's overall financial health.

As the School District completed this year, the governmental funds reported a combined fund balance of \$1.79 million, which is a decrease of approximately \$900,000 from last year. The primary reasons for the decrease were additional payments of principal and interest paid on the School Bond Loan Fund Borrowing of almost \$500,000, almost \$134,000 in planned capital outlay from the Capital Projects Funds, and a planned usage of General Fund fund balance.

General Fund fund balance is available to fund costs related to allowable school operating purposes. Central Montcalm Public School uses its Fund Balance to "smooth" unexpected changes in revenues and/or expenses.

Our Special Revenue Funds remained relatively constant. Special Revenue Funds include the Food Service, Athletics, and Community Service Funds. The Food Service Fund did have an increase to fund balance of approximately \$11,000 due to an increase in meal sales and a modest rise in the prices charged for meals.

The combined Capital Projects Funds fund balances decreased as the School District continued to wrap up construction related to the 1999 bond issue and the transferring of funds to the General Fund from the Public Improvement Capital Projects Fund to pay for a school bus. The construction project was estimated to be 99 percent complete at June 30, 2003 with only minor expenditures taking place in the current year to conclude expended that project's dollars. Current and expected expenditures from these funds are related to finalizing the 1999 construction project and other allowable uses from the public improvement (capital projects) fund.

General Fund Budgetary Highlights

Over the course of the year, the School District revises its budget as it attempts to deal with unexpected changes in revenues and expenditures. State law requires that the budget be amended to ensure that expenditures do not exceed appropriations. The final amendment to the budget was actually adopted just before year-end. A schedule showing the School District's original and final budget amounts compared with amounts actually paid and received is provided in required supplementary information of these financial statements.

Central Montcalm Public School

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

There were minor revisions made to the 2005-2006 General Fund original budget. The total expenditure budget was amended approximately \$.2 million to cover expenditures that were originally anticipated due to adjustments made for the final payment being made for a previously established early retirement incentive, increased fuel and heating costs, additional costs incurred at the conclusion of collective bargaining and other necessary adjustments.

Capital Assets and Debt Administration

Capital Assets

As of June 30, 2006, the School District had almost \$27 million invested in a broad range of net capital assets, including land, buildings, vehicles, furniture, and equipment (net of accumulated depreciation). This amount represents a net decrease (including additions and disposals) of approximately \$.8 million from last year net capital assets. Below is the historical cost of all District Capital assets:

	<u>2006</u>	<u>2005</u>
Land	\$ 12,802	\$ 12,802
Buildings and building improvements	30,367,987	30,290,010
Buses and other vehicles	1,260,303	1,315,028
Furniture and equipment	<u>3,137,810</u>	<u>3,047,275</u>
Total historical cost	<u>\$ 34,778,902</u>	<u>\$ 34,665,115</u>

There was \$7,699,667 in accumulated depreciation on these assets at June 30, 2006 to bring them to a net book value of \$27,079,235. See the notes to the financial statements for more details related to capital assets.

This year's additions to historical cost of approximately \$.2 million included technology, building renovations, buses, and other equipment. There was over \$1 million in depreciation allocated to various functions for the district-wide statements to result in the net decrease to assets of the \$.8 million. No new debt was issued for these additions.

Debt

At the end of this year, the School District had almost \$23.1 million in bonds and other obligations outstanding versus almost \$24.2 million in the previous year. Those debts consisted of the following:

	<u>2006</u>	<u>2005</u>
General Obligation Bonds	\$ 19,634,104	\$ 20,205,917
School Bond Loan	2,925,904	3,306,144
State Aid Obligation	86,990	174,160
Employee compensated absences	242,805	221,222
Capitalized bond items less deferred amounts	64,290	67,212
Installment purchase agreement	<u>95,996</u>	<u>186,382</u>
Total	<u>\$ 23,050,089</u>	<u>\$ 24,161,037</u>

The State limits the amount of general obligation debt that schools can issue up to 15 percent of the assessed value of all taxable property within the School District's boundaries. If the School District issues "qualified debt," i.e., debt backed by the State of Michigan, such obligations are not subject to this debt limit. The School District's outstanding qualified general obligation debt of approximately \$23 million is below this statutorily imposed limit.

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

Other obligations including accrued vacation pay and sick leave are reported as required by GASB. We present more detailed information about our long-term liabilities in the notes to the financial statements.

Economic Factors and Next Year's Budgets and Rates

Our elected officials and administration considered many factors when setting the School District's 2006/07 fiscal year budgets. One of the most important factors affecting the budget is our student count. The State foundation revenue is determined by multiplying the blended student count by the foundation allowance per pupil. The blended count for the 2007 fiscal year is 25 percent and 75 percent of the February 2006 and September 2006 student counts, respectively. The 2006/07 budget was adopted in June 2006, based on an estimate of students that will be enrolled in September 2006. Approximately 86 percent of total General Fund revenue is from the foundation allowance. Under State law, the School District cannot access additional property tax revenue for general operations. As a result, district funding is heavily dependent on the State's ability to fund local school operations. Based on early enrollment data at the start of the 2006/07 school year, we anticipate that the fall student count will be close to the estimates used in creating the 2006/07 budget. Once the final student count and related per pupil funding is validated, State law requires the School District to amend the budget if actual district resources are not sufficient to fund original appropriations.

Since the School District's revenue is heavily dependent on State funding and the health of the State's School Aid Fund, the actual revenue received depends on the State's ability to collect revenues to fund its appropriation to school districts. The State periodically holds a revenue-estimating conference to estimate revenues. Based on the results of the most recent conference, the State estimates that funds are sufficient to fund the appropriation. If these estimates are not accurate the State may prorate State aid. Other factors affecting the 2006/07 budget was declined enrollment and an increase in the School Employee retirement contribution amount to 17.74% of eligible payroll.

During 2006, the School District settled labor contracts with the unionized staff. The financial impact on General Fund expenditures is estimated by the School District to be \$48,000 above the original budget projections.

Contacting the District's Management

This financial report is intended to provide our taxpayers, parents, and investors with a general overview of the District's finances and to show the District's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the Business Office.

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Jill Folsom, Chief School Business Official
621 New Street, PO Box 9
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989-831-5243

BASIC FINANCIAL STATEMENTS

Central Montcalm Public School

STATEMENT OF NET ASSETS

June 30, 2006

	Governmental Activities
ASSETS	
Current assets	
Cash and cash equivalents	\$ 2,586,505
Accounts receivable	1,600
Due from other governmental units	2,643,886
Prepays	68,340
Inventories	16,031
	<hr/>
Total current assets	5,316,362
Noncurrent assets	
Capital assets not being depreciated	12,802
Capital assets, net of accumulated depreciation	27,066,433
	<hr/>
Total noncurrent assets	27,079,235
	<hr/>
TOTAL ASSETS	32,395,597
LIABILITIES	
Current liabilities	
Accounts payable	112,708
Accrued payroll	672,533
Other accrued liabilities	734,186
Deferred revenue	9,862
Accrued interest payable	157,381
Short-term note payable	2,000,000
Current portion of compensated absences	106,652
Current portion of long-term debt	858,281
	<hr/>
Total current liabilities	4,651,603
Noncurrent liabilities	
Accrued interest payable	19,660
Compensated absences	136,153
Noncurrent portion of long-term debt	21,949,003
	<hr/>
Total noncurrent liabilities	22,104,816
	<hr/>
TOTAL LIABILITIES	26,756,419
NET ASSETS	
Invested in capital assets, net of related debt	4,271,951
Restricted for debt service	315,075
Unrestricted	1,052,152
	<hr/>
TOTAL NET ASSETS	\$ 5,639,178
	<hr/>

See accompanying notes to financial statements.

Central Montcalm Public School

STATEMENT OF ACTIVITIES

For the Year Ended June 30, 2006

		Program Revenues		Net (Expense) Revenues and Changes in Net Assets
	Expenses	Charges for Services	Operating Grants	Governmental Activities
Expenses				
Instruction	\$ 9,994,854	\$ -	\$ 1,411,640	\$ (8,583,214)
Supporting services	6,085,585	-	604,862	(5,480,723)
Food service	713,961	281,717	435,728	3,484
Athletics	246,318	35,682	-	(210,636)
Community services	33,076	31,977	-	(1,099)
Payments to other districts	257,732	-	-	(257,732)
Interest and costs on long-term debt	1,061,345	-	-	(1,061,345)
TOTAL EXPENSES	\$ 18,392,871	\$ 349,376	\$ 2,452,230	(15,591,265)
General Revenues				
Property taxes				2,818,525
State school aid - unrestricted				12,060,059
Investment earnings				111,555
Miscellaneous				43,621
TOTAL GENERAL REVENUES				15,033,760
EXCESS OF REVENUES UNDER EXPENSES				(557,505)
Net assets, beginning of year				6,196,683
Net assets, end of year				\$ 5,639,178

See accompanying notes to financial statements.

Central Montcalm Public School

GOVERNMENTAL FUNDS BALANCE SHEET

June 30, 2006

	General	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS			
Cash and cash equivalents	\$ 2,005,868	\$ 580,637	\$ 2,586,505
Accounts receivable	-	1,600	1,600
Due from other funds	-	3,058	3,058
Due from other governmental units	2,637,996	5,890	2,643,886
Prepays	68,340	-	68,340
Inventories	5,485	10,546	16,031
TOTAL ASSETS	\$ 4,717,689	\$ 601,731	\$ 5,319,420
LIABILITIES AND FUND BALANCE			
LIABILITIES			
Accounts payable	\$ 105,048	\$ 7,660	\$ 112,708
Accrued payroll	672,533	-	672,533
Other accrued liabilities	734,186	-	734,186
Deferred revenue	9,862	-	9,862
Due to other funds	1,670	1,388	3,058
Short-term note payable	2,000,000	-	2,000,000
TOTAL LIABILITIES	3,523,299	9,048	3,532,347
FUND BALANCE			
Reserved for			
Inventories and prepaids	73,825	10,546	84,371
Debt service	-	492,116	492,116
Unreserved			
Designated for capital projects	-	7,528	7,528
Undesignated, reported in:			
General fund	1,120,565	-	1,120,565
Special revenue funds	-	82,493	82,493
TOTAL FUND BALANCE	1,194,390	592,683	1,787,073
TOTAL LIABILITIES AND FUND BALANCE	\$ 4,717,689	\$ 601,731	\$ 5,319,420

See accompanying notes to financial statements.

Central Montcalm Public School

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET WITH
THE STATEMENT OF NET ASSETS

June 30, 2006

Total fund balance - governmental funds \$ 1,787,073

Amounts reported for the governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources
and therefore are not reported as assets in the governmental funds.

The cost of capital assets is	\$ 34,778,902	
Accumulated depreciation is	<u>(7,699,667)</u>	27,079,235

Long-term liabilities are not due and payable in the current period
and therefore are not reported as liabilities in the funds.

Long-term liabilities at year-end consist of:

Bonds and loans payable	(22,720,294)	
State Aid Obligation	(86,990)	
Accrued interest payable on long-term debt	(177,041)	
Compensated absences	<u>(242,805)</u>	<u>(23,227,130)</u>

Net assets of governmental activities \$ 5,639,178

See accompanying notes to financial statements.

Central Montcalm Public School

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS

Year Ended June 30, 2006

	General	Nonmajor Governmental Funds	Totals Governmental Funds
REVENUES			
Local sources	\$ 1,280,839	\$ 2,037,310	\$ 3,318,149
State sources	13,140,290	52,079	13,192,369
Federal sources	659,550	400,787	1,060,337
OTHER FINANCING SOURCES			
Transfers from other funds	66,521	175,795	242,316
Other transactions	264,511	-	264,511
TOTAL REVENUES AND OTHER FINANCING SOURCES	15,411,711	2,665,971	18,077,682
EXPENDITURES			
Current			
Instruction	9,139,005	-	9,139,005
Supporting services	6,032,685	-	6,032,685
Food service	-	707,881	707,881
Athletics	-	214,512	214,512
Community service	-	33,076	33,076
Debt service	90,386	2,124,738	2,215,124
Capital outlay	-	67,746	67,746
OTHER FINANCING USES			
Other transactions	61,656	-	61,656
Transfers to other funds	175,795	66,521	242,316
Payments to other districts	257,732	-	257,732
TOTAL EXPENDITURES AND OTHER FINANCING USES	15,757,259	3,214,474	18,971,733
EXCESS OF REVENUES AND OTHER FINANCING SOURCES (UNDER) EXPENDITURES AND OTHER FINANCING USES	(345,548)	(548,503)	(894,051)
Fund balances, beginning of year	1,539,938	1,141,186	2,681,124
Fund balances, end of year	\$ 1,194,390	\$ 592,683	\$ 1,787,073

See accompanying notes to financial statements.

Central Montcalm Public School

RECONCILIATION OF THE CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES

June 30, 2006

Net change in fund balances - total governmental funds \$ (894,051)

Amounts reported for governmental activities in the statement of activities are different because:

Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:

Capital outlay	\$ 235,033	
Depreciation expense	<u>(1,039,439)</u>	
Excess of depreciation expense over capital outlay		(804,406)

Repayment of long-term debt and borrowing of long-term debt is reported as expenditures, reductions to state aid, and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. Also, governmental funds report the effect of issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. In the current year, these amounts consisted of:

Long-term debt principal retirement	1,251,019	
Bond proceeds (accrued SBLF interest)	<u>(118,488)</u>	
Excess of principal retirement over bond proceeds		1,132,531

Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:

Decrease in accrued interest payable	30,004	
(Increase) in compensated absences	<u>(21,583)</u>	
		<u>8,421</u>

Change in net assets of governmental activities \$ (557,505)

See accompanying notes to financial statements.

Central Montcalm Public School

Fiduciary Fund

STATEMENT OF FIDUCIARY NET ASSETS

June 30, 2006

	Agency Fund
ASSETS	
Cash	<u>\$ 124,740</u>
LIABILITIES	
Due to student activities	<u>\$ 124,740</u>

See accompanying notes to financial statements.

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of Central Montcalm Public School have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The District's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement No. 14, *The Financial Reporting Entity* (as amended by GASB Statement 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of Central Montcalm Public School (primary government). The District has no activities that would be classified as component units.

2. Basis of Presentation

DISTRICT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the district-wide statements) present information for the district as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the district-wide statements). Interfund activity has been eliminated in the preparation of the district-wide financial statements.

The district-wide and fiduciary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations are provided that explain the differences in detail.

The statement of activities presents the direct functional expenses of the District and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State aid payments and other general revenues and shows how governmental functions are either self-financing or supported by the general revenues of the District.

FUND FINANCIAL STATEMENTS

The governmental fund financial statements present the District's individual major fund and aggregated non-major funds. A separate column is shown for the major fund on the balance sheet and statement of revenues, expenditures, and changes in fund balances. Non-major funds are combined and shown in a single column.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

The major fund of the District is:

- a. General Fund - The General Fund is used to account for money or other resources provided to the District to support the educational programs and general operations of the District.

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Basis of Accounting

Basis of accounting refers to the timing under which transactions are recognized for financial reporting purposes. Governmental fund financial statements use the modified accrual basis of accounting. The district-wide and fiduciary fund financial statements are prepared using the accrual basis of accounting.

Under the accrual basis of accounting, revenue is recorded in the period in which it is earned and expenses are recorded when incurred, regardless of the timing of related cash flows. Property tax revenue is recognized in the fiscal year for which it is levied. Revenues for grants, entitlements, and donations are recognized when all eligibility requirements imposed by the provider have been met. Deferred revenue is recorded when resources are received by the District before it has legal claim to them, such as when grant monies are received prior to the incurrence of qualified expenditures.

Under the modified accrual basis of accounting, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Revenues susceptible to accrual include property taxes, state and federal aid, and interest revenue. Other revenues are not susceptible to accrual because generally they are not measurable until received in cash. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt which are recorded when due.

The District reports deferred revenue on its governmental funds balance sheet. Deferred revenues arise when potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Resources are considered available if they are collected during the current fiscal year or soon enough afterward to be used in payment of current year liabilities - defined as expected to be received within sixty days of year-end. Deferred revenues also arise when the District receives resources before it has a legal claim to them. In subsequent periods, when both revenue recognition criteria are met, the liability for deferred revenue is removed from the balance sheet and revenue is recognized.

4. Budgets and Budgetary Accounting

Budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America. Annual appropriated budgets are adopted for the General and Special Revenue funds. All unexpended appropriations lapse at fiscal year end.

The District follows these procedures in establishing the budgetary data reflected in the financial statements:

- a. The Superintendent submits to the School Board a proposed operating budget for the fiscal year commencing on July 1. The operating budget includes proposed expenditures and the means for financing them.
- b. Public hearings are conducted to obtain taxpayer comments.
- c. Prior to July 1, the budget is legally adopted by School Board resolution pursuant to the Uniform Budgeting and Accounting Act (P.A. 621 of 1978). The Act requires that the budget be amended prior to the end of the fiscal year when necessary to adjust appropriations if it appears that revenues and other financing sources will not be in excess of original estimates. Expenditures shall not be made or incurred, unless authorized in the budget, in excess of the amounts appropriated.
- d. The budgets are legally adopted at the functional level; however, they are maintained at the object level for control purposes. Any revisions that alter the total expenditures at the functional level must be approved by the School Board.

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2006

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

4. Budgets and Budgetary Accounting - continued

- e. Formal budgetary integration is employed as a management control device during the year for the General and Special Revenue Funds.
- f. The budget, as presented, has been amended in a legally permissible manner. Two (2) supplemental appropriations were made during the year with the final amendments being approved June 12, 2006.

5. Cash and Cash Equivalents

Cash and cash equivalents consist of checking accounts. Cash equivalents are recorded at market value.

6. Short-term Interfund Receivables/Payables

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" and "due to other funds" on the governmental funds balance sheet.

7. Due From Other Governmental Units

Due from other governmental units consists of various amounts owed to the District for grant programs and State Aid payments. The State of Michigan's funding stream of State Aid payments results in the final two (2) payments, related to the fiscal year ended June 30, 2006, to be paid in July and August 2006. The total amount of \$2,637,996 due from other governmental units consists of \$2,410,998 and \$226,998 related to State Aid and grant and local programs, respectively.

8. Inventories

Inventories are stated at cost on a first in/first out basis. The General Fund inventory consists of paper. The Food Services Fund inventory consists of food and paper goods. Inventory amounts are equally offset by a fund balance reserve which indicates that they do not constitute "available spendable resources" even though they are a component of net current assets.

9. Capital Assets

Capital assets include land, buildings, equipment, and vehicles and are recorded (net of accumulated depreciation, if applicable) in the district-wide financial statements. Capital assets are those with an initial individual cost greater than \$5,000 and an estimated useful life of more than five (5) years. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the district-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Buildings and building improvements	20-50 years
Buses and other vehicles	5-10 years
Furniture and equipment	5-15 years

The District has no assets that would be classified as infrastructure assets.

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2004

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

10. Compensated Absences

Based on the requirements of GASB Statement No. 16, *Accounting for Compensated Absences*, the District has recorded all liabilities associated with compensated absences. Accumulated vested severance amounts and nonvested severance amounts that are probable to vest and be paid at termination are considered payable from future resources and are recorded along with the related payroll taxes as a long-term liability in the district-wide financial statements.

11. Accrued Interest Payable

Accrued interest is presented for long-term obligations in the district-wide statements in two components: the portion of accrued interest payable that is due within one year is reported as a current liability, the remaining amount that is not due within one year has been reported as a noncurrent liability. The interest payable on the Durant Resolution bonds that were due May 15, 2003 through May 15, 2005 is shown as a noncurrent liability due to the State of Michigan deferring the payments during this time period until May 15, 2012.

12. Long-term Obligations

Long-term debt is recognized as a liability in the district-wide statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in the Debt Service Funds for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

13. Property Taxes

Property taxes levied by the District are collected by various municipalities and periodically remitted to the District. The taxes are levied as of December 1 and are due upon receipt of the billing by the taxpayer. The actual due date is February 14, after which time the bills become delinquent and penalties and interest may be assessed by the collecting entity. School District property tax revenues are recognized when levied.

The District levies taxes of \$18.00 per \$1,000 of taxable valuation on nonhomestead property for general governmental services and \$7 per \$1,000 of taxable valuation on the total applicable taxable valuation of all property within the District for debt service. The District is also permitted to levy additional amounts for enhancement and/or debt service if voter approval is obtained.

14. State Foundation Revenue

Beginning with the fiscal year ended June 30, 1995, the State of Michigan adopted a foundation grant approach, which provides for a specific annual amount of revenue per student based on a state wide formula. Prior to the fiscal year ended June 30, 1995 the State utilized a district power equalizing approach. The foundation is funded from state and local sources. Revenues from state sources are primarily governed by the School Aid Act and the School Code of Michigan. The Michigan Department of Education administers the allocation of state funds to school districts based on information supplied by the districts. For the year ended June 30, 2006, the foundation allowance was based on the average of pupil membership counts taken in September 2005 and February 2005. The average calculation was weighted 75% for the September 2005 count and 25% for the February 2005 count.

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2004

NOTE A: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

14. State Foundation Revenue - continued

The State portion of the foundation is provided primarily by a state education property tax millage of 6 mills and an allocated portion of state sales and other taxes. The local portion of the foundation is funded primarily by nonhomestead property taxes which may be levied at a rate of up to 18 mills. The State revenue is recognized during the foundation period (currently the fiscal year) and is funded through nine (9) payments made during the year and two (2) payments made subsequent to year-end. The local revenue is recognized as outlined above under Property Taxes.

15. State Categorical Revenue

The District also receives revenue from the State to administer certain categorical education programs. State rules require that revenue earmarked for these programs be expended for its specific purpose. Categorical funds received which are not expended by the close of the fiscal year are recorded as deferred revenue.

16. Interfund Transactions

Transactions that constitute reimbursements to a fund for expenditures initially made from it that are properly applicable to another fund are recorded as expenditures in the reimbursing fund and as reductions of expenditures in the fund that is reimbursed. Transfers of resources to other funds are recorded as operating transfers. Transfers are netted as part of the reconciliation to the district-wide financial statements.

17. Federal Programs

Federal programs are accounted for in the General Fund and specific Special Revenue Funds. The District has not integrated its Single Audit reports and financial data as part of the financial statements. The Single Audit reports and financial data will be issued under separate cover as supplementary information to the financial statements.

18. Comparative Data

Comparative data for the prior year has not been presented in the basic financial statements since their inclusion would make the statements unduly complex and difficult to read.

NOTE B: CASH AND CASH EQUIVALENTS

In accordance with Michigan Public Act 451 of 1976, Section 1223(1), as amended, the District is authorized to invest its surplus funds in the following types of investments:

1. Bonds, bills, or notes of the United States; obligations, the principal and interest of which are fully guaranteed by the United States; or obligations of the State.
2. Certificates of deposit issued by a State or national bank, savings accounts of a State or Federal savings and loan association, or certificates of deposit or share certificates of a State or Federal credit union organized and authorized to operate in this State.
3. Commercial paper rated prime at the time of purchase and maturing not more than 270 days after the date of purchase.
4. Securities issued or guaranteed by agencies or instrumentalities of the United States government.
5. United States government or federal agency obligation repurchase agreements.

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2006

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

6. Bankers' acceptances issued by a bank that is a member of the Federal Depository Insurance Corporation.
7. Mutual funds composed entirely of investment vehicles that are legal for direct investment by a School District.
8. Investment pools, as authorized by the Surplus Funds Investment Pool Act, Act No. 367 of the Public Acts of 1982, being sections 129.111 to 129.118 of the Michigan Compiled Laws, composed entirely of instruments that are legal for direct investment by a School District.

Michigan Public Acts authorize school districts in Michigan to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations. Deposits of the District are at federally insured banks and credit unions in the State of Michigan in the name of the School District.

Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation (FSLIC), and the National Credit Union Administration regulations provide that deposits of governmental units are to be separately insured for savings deposits and demand deposits up to \$100,000 each. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000. Michigan School Code Section 1223 allows that security in the form of collateral, surety bond, or another form may be taken for the deposits or investments of a school district in a bank, savings and loan association, or credit union.

Deposits

There is custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it.

As of June 30, 2006, the carrying amount of the District's deposits was \$2,711,245 and the bank balance was \$2,918,859, of which \$271,314 was covered by federal depository insurance. The balance of \$2,647,545 was uninsured and uncollateralized. The District had \$280 of imprest cash on hand as of June 30, 2006.

Interest rate risk

The District has adopted a policy that indicates how the District will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by limiting the weighted average maturity of its investment portfolio to less than a given period of time.

Concentration of credit risk

The District has adopted a policy that indicates how the District will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the District's investment in a single issuer, by diversifying the investment portfolio so that the impact of potential losses from any one type of security or issuer will be minimized.

Custodial credit risk

The District has adopted a policy that indicates how the District will minimize custodial credit risk. Custodial credit risk is the risk of loss due to the failure of the security issuer or backer. The Board policy limits investments to the types of securities authorized by the Board and pre-qualifying the financial institutions, broker/dealers, intermediaries and advisors with which the District will do business in accordance with the Board approved policy.

Central Montcalm Public School

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2006

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

As of June 30, 2006, the cash and cash equivalents referred to above have been reported in the cash and cash equivalents captions in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Fiduciary Funds</u>	<u>Total Primary Government</u>
Cash and cash equivalents	<u>\$ 2,586,505</u>	<u>\$ 124,740</u>	<u>\$ 2,711,245</u>

Due to significantly higher cash flow at certain periods during the year, the amount the District held as cash, cash equivalents and investments increased significantly. As a result, the amount of uninsured and uncollateralized cash, cash equivalents, and investments were substantially higher at these peak periods than at year-end.

NOTE C: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

	<u>Balance July 1, 2005</u>	<u>Additions/ reclassifications</u>	<u>Deletions/ reclassifications</u>	<u>Balance June 30, 2006</u>
Capital assets not being depreciated				
Land	\$ 12,802	\$ -	\$ -	\$ 12,802
Capital assets being depreciated				
Buildings and building improvements	30,290,010	77,977	-	30,367,987
Buses and other vehicles	1,315,028	66,521	(121,246)	1,260,303
Furniture and equipment	<u>3,047,275</u>	<u>90,535</u>	<u>-</u>	<u>3,137,810</u>
Subtotal of capital assets being depreciated	34,652,313	235,033	(121,246)	34,766,100
Less accumulated depreciation for:				
Buildings and building improvements	(4,589,347)	(616,608)	-	(5,205,955)
Buses and other vehicles	(617,077)	(103,688)	115,196	(605,569)
Furniture and equipment	<u>(1,575,050)</u>	<u>(313,093)</u>	<u>-</u>	<u>(1,888,143)</u>
Total accumulated depreciation	<u>(6,781,474)</u>	<u>(1,033,389)</u>	<u>115,196</u>	<u>(7,699,667)</u>
Net capital assets being depreciated	<u>27,870,839</u>	<u>(798,356)</u>	<u>(6,050)</u>	<u>27,066,433</u>
Capital assets, net	<u>\$27,883,641</u>	<u>\$ (798,356)</u>	<u>\$ (6,050)</u>	<u>\$27,079,235</u>

The current year depreciation expense of \$1,033,389 has been adjusted by \$6,050 for the disposal of capital assets during the year, in accordance with GASB Statement No. 34 implementation guide which states that immaterial losses be handled as an adjustment to the current period's depreciation expense.

Total depreciation expense of \$1,039,439 was allocated to governmental functions of the school district as follows:

Instruction	\$ 1,001,553
Food service	6,080
Athletics	<u>31,806</u>
	<u>\$ 1,039,439</u>

Central Montcalm Public School

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2006

NOTE D: LONG-TERM DEBT

The following is a summary of changes in long-term debt obligations of the District for the year ended June 30, 2006.

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006	Amounts Due within One Year
1999 General Obligation Bonds	\$ 2,240,000	\$ -	\$ 560,000	\$ 1,680,000	\$ 560,000
2005 Refunding Bonds	17,810,000	-	-	17,810,000	100,000
1998 Durant Resolution Bonds	155,917	-	11,813	144,104	12,373
Michigan School Bond Loans					
Principal and interest	3,306,144	118,488	498,728	2,925,904	-
State Aid Obligation	174,160	-	87,170	86,990	86,990
Installment Purchase Agreement	186,382	-	90,386	95,996	95,996
Capitalized bond items	857,837	-	37,297	820,540	37,297
Compensated Absences	221,222	21,583	-	242,805	106,652
	24,951,662	140,071	1,285,394	23,806,339	999,308
Less: deferred amounts on refunding	790,625	-	34,375	756,250	34,375
	<u>\$24,161,037</u>	<u>\$ 140,071</u>	<u>\$ 1,251,019</u>	<u>\$23,050,089</u>	<u>\$ 964,933</u>

Significant details regarding outstanding long-term debt (including current portions) are presented below:

Advanced Refunding - Prior

The District defeased a portion of the 1999 General Obligation Bonds which are due and payable May 1, 2010 through May 1, 2019. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. Government Securities sufficient to meet the applicable principal and interest payments. The District issued 2005 Refunding Bonds in the amount of \$17,810,000 to fund escrow amounts and pay the cost of issuance of the refunding bonds, to pay a portion of the remaining balances of the 1999 School Building and Site Bonds. Accordingly, the trust account assets and liabilities for the defeased bond are not included in the District's financial statements. At June 30, 2006, bonds due and payable May 1, 2019 for 1999 General Obligation Bonds in the amount of \$16,985,000 are considered defeased.

General Obligation Bonds

\$22,585,000 1999 School Building and Site Bonds dated November 1, 1999, due in annual installments of \$560,000 through May 1, 2009, with interest of 6.50 percent, payable semi-annually

\$ 1,680,000

\$17,810,000 2005 Refunding Bonds dated March 30, 2005, due in annual installments ranging from \$100,000 to \$950,000 through May 1, 2029, with interest ranging from 3.00 to 5.00 percent, payable semi-annually

17,810,000

19,490,000

Resolution Bonds

\$244,052 1998 Durant Resolution Bonds dated November 15, 1998, due in annual installments ranging from \$12,373 to \$58,305 with interest of 4.761353 percent, payable annually. The annual debt service payments related to these bonds is paid through an annual appropriation from the State of Michigan.

144,104

\$19,634,104

Central Montcalm Public School
NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2006

NOTE D: LONG-TERM DEBT - CONTINUED

Michigan School Bond Loans

The School District borrows on various occasions from the Michigan School Bond Loan Fund. Repayment is due when the School District has funds available as determined by the State of Michigan. Interest accrues on the unpaid balance. During the year the interest rate ranged from 3.125 to 4.500 percent.

The School District paid \$498,728 in principal during this fiscal year but had an additional \$118,488 of accrued interest added to the loan on the outstanding balance during the year. The balances at June 30, 2006, are as follows:

Loan balance	\$ 2,833,473
Interest balance	<u>92,431</u>
	<u>\$ 2,925,904</u>

State Aid Obligation - In accordance with the letter dated June 11, 2004 from the State of Michigan Department of Education the District was overpaid State Aid \$435,549 related to their Adult Education program in previous years. The State of Michigan has allowed these funds to be repaid as a state aid reduction over a five (5) year period commencing in the 2002/03 fiscal year. The annual payments will be recaptured through the 2006/07 without interest. For the year ended June 30, 2006, the outstanding liability was \$86,990.

Installment Purchase Agreement

\$282,607 Installment Purchase Agreement dated March 28, 2005, due in annual installments through March 28, 2007, including interest of 6.04 percent, payable annually \$ 95,996

Compensated Absences - In accordance with District personnel policies and/or contracts negotiated with various employee groups of the District, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in their respective personnel policies and/or contracts:

Teachers will be paid for a maximum of 145 days unused sick days based on the following computation:

<u>Accumulated Days</u>	<u>Amount</u>
Less than 90	\$35 per day accumulated
90-109	\$40 per day accumulated
110-145	\$45 per day accumulated

All other staff will be paid \$30 per unused sick day accumulated.

The superintendent's, administrators', and other union exempt employees' maximum sick and vacation pay is based on individual agreements.

Under GASB Statement No. 16 requirements, the District has elected to implement the "vesting" method of calculating the compensated absences liability. The amounts accumulated for all employees currently vested are calculated along with an amount for other employees who currently are not vested but are probable to vest in future years. The amounts for employees who currently are not vested are calculated taking total unused sick pay amounts at June 30, 2006, for all nonvested employees and multiplying it by a historical termination percentage. This percentage is based on an estimate of the percentage of employees who have terminated employment fully vested in the past five (5) years.

Central Montcalm Public School

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2006

NOTE D: LONG-TERM DEBT - CONTINUED

A summary of the calculated amounts of accrued compensated absences and related payroll taxes as of June 30, 2006, which have been recorded in the district-wide financial statements, is as follows:

	<u>Vested Employees</u>	<u>Nonvested Employees</u>	<u>Total</u>
Compensated absences	\$ 106,531	\$ 119,019	\$ 225,550
Payroll taxes	<u>8,150</u>	<u>9,105</u>	<u>17,255</u>
	<u>\$ 114,681</u>	<u>\$ 128,124</u>	<u>\$ 242,805</u>

The annual requirements to pay the debt principal and interest outstanding for the Long-Term Debt are as follows:

<u>Year Ending June 30,</u>	<u>Durant Resolution Bonds</u>		<u>General Obligation Bonds</u>		<u>State Aid Obligation Principal</u>
	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2007	12,373	4,763	660,000	940,713	86,990
2008	12,965	4,174	660,000	901,313	-
2009	13,582	3,556	660,000	861,663	-
2010	58,305	22,570	950,000	822,013	-
2011	14,906	2,232	935,000	788,763	-
2012-2016	31,973	2,301	4,550,000	3,392,300	-
2017-2021	-	-	4,390,000	2,326,500	-
2022-2026	-	-	4,240,000	1,244,000	-
2027-2029	-	-	<u>2,445,000</u>	<u>243,500</u>	-
	<u>\$ 144,104</u>	<u>\$ 39,596</u>	<u>\$19,490,000</u>	<u>\$11,520,765</u>	<u>\$ 86,990</u>

<u>Year Ending June 30,</u>	<u>Installment Purchase Agreement</u>	
	<u>Principal</u>	<u>Interest</u>
2007	<u>\$ 95,996</u>	<u>\$ 3,932</u>

It is not possible to project a payment schedule for the Michigan School Bond Loans due to varying interest rates and timing of repayments. As a result, it is not included in the schedule above.

The Durant Resolution Bonds referred to above are bonds whose future debt service payments by the District are contingent on an annual State of Michigan appropriation. This is the only revenue source for making the annual debt service payments on these bonds. If the legislature of the State of Michigan fails to appropriate the funds, in any particular year, the District is under no obligation for payment of that year's debt obligation.

NOTE E: INTERFUND RECEIVABLES AND PAYABLES

The amount of interfund receivables and payables at June 30, 2006, are as follows:

Due to nonmajor governmental funds from	
General Fund	\$ 1,670
Nonmajor governmental funds	<u>1,388</u>
	<u>\$ 3,058</u>

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2006

NOTE E: INTERFUND RECEIVABLES AND PAYABLES - CONTINUED

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE F: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds have been eliminated.

Transfers to general fund from:	
Nonmajor governmental funds	\$ 66,521
Transfers to nonmajor governmental funds from:	
General Fund	<u>175,795</u>
	<u>\$ 242,316</u>

NOTE G: EMPLOYEE RETIREMENT SYSTEM

All of the District's employees, except students, are eligible to participate in the State wide Michigan Public School Employees' Retirement System (MPERS), a multiple-employer, cost-sharing, State wide public employee retirement system. The MPERS issues a publicly available financial report that includes financial statements and required supplementary information for the Plan. The report for the fiscal year-end September 30, 2002, the last year available, may be obtained by contacting the State of Michigan, Department of Management and Budget.

The payroll for employees covered by the MPERS for the year ended June 30, 2006, was \$9,045,994 of which \$6,581,382 was for members who have elected the MIP option; the District's total payroll was \$9,137,164.

Effective January 1, 1987, Act 91 of the Public Acts of 1985 established a voluntary contribution to the Member Investment Plan (MIP). Employees first hired before January 1, 1990, made a one-time irrevocable election to contribute to the tax deferred MIP. For a limited period ended January 1, 1993, an active Basic Plan member may have enrolled in MIP by repaying the contributions and interest that would have been made had MIP enrollment occurred initially prior to January 1, 1990. Employees first hired on or after January 1, 1990, will automatically be included in MIP.

Members in MIP may retire at any age after attaining thirty years of credited service, or at age sixty while still working with a minimum total of five (5) years of credited service, with credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date.

The retirement allowance is calculated using a formula of 1.5% of the member's final average compensation multiplied by the total number of years of credited service.

Employees who did not elect the MIP option fall under the MPERS Basic Plan and may retire after attaining age sixty with ten (10) years of credited service; or attaining age fifty-five with thirty or more years of credited service; or attaining age fifty-five while still working with at least fifteen (15) but fewer than thirty years of credited service in each of the five (5) school fiscal years immediately preceding the retirement allowance effective date.

Central Montcalm Public School

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2006

NOTE G: EMPLOYEE RETIREMENT SYSTEM - CONTINUED

The retirement allowance is computed using a formula of 1.5% of the average of the highest total earnings during a period of sixty consecutive months (five (5) years) multiplied by the total years to the nearest tenth of a year of credited service.

The MPSERS also provides death and disability benefits and health and medical, dental, vision, and hearing insurance coverage. Benefits are established by State statute.

Employees who selected MIP on or before December 31, 1989, contributed 4% from January 1, 1987, to December 31, 1989, and 3.9% thereafter. Employees first hired on or after January 1, 1990, are required to contribute based on a graduated wage; 3% of the first \$5,000; 3.6% of \$5,001 through \$15,000; 4.3% of all wages over \$15,000.

For the period of July 1, 2005 to September 30, 2005, the District was required by State statute to contribute 14.87% of covered compensation and for the period of October 1, 2005 to June 30, 2006, the District was required by State statute to contribute 16.34% of covered compensation for all wages to the Plan. The total amount contributed to the Plan for the year ended June 30, 2006, and the previous two (2) years is as follows:

<u>June 30,</u>	<u>MIP Contributions</u>	<u>District Contributions</u>	<u>Total Contributions</u>
2006	\$ 255,255	\$ 1,447,673	\$ 1,702,928
2005	259,323	1,319,500	1,578,823
2004	253,386	1,173,030	1,426,416

The following represents contributions as a percentage of the applicable covered payroll for the current and preceding two (2) years:

<u>June 30,</u>	<u>MIP Contributions</u>	<u>District Contributions</u>
2006	4.0 %	16.0 %
2005	4.0	14.4
2004	4.0	13.0

NOTE H: FUND BALANCE RESERVES AND DESIGNATIONS

Reserved fund balance is used to earmark a portion of fund balance to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use. Designated fund balance in the Fund financial statements indicates that portion of fund balance which the District has set aside for specific purposes.

The following are the fund balances reserve as of June 30, 2006:

General Fund	
Reserved for inventories and prepaids	\$ 73,825
Special Revenue Fund	
Food Service	
Reserved for inventories	10,546

Central Montcalm Public School

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2006

NOTE H: FUND BALANCE RESERVES AND DESIGNATIONS - CONTINUED

Debt Service Funds	
1999 Debt Fund	
Reserved for debt service	\$ 63,349
2005 Debt Fund	
Reserved for debt service	<u>428,767</u>
	<u>492,116</u>
	<u>\$ 576,487</u>

The following is the fund balance designation as of June 30, 2006:

Capital Projects Funds	
Designated for capital projects	<u>\$ 7,528</u>

NOTE I: RESTRICTED NET ASSETS

Restrictions of net assets shown in the District-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of June 30, 2006:

PRIMARY GOVERNMENT	
Governmental activities	
Restricted for Debt Service	<u>\$ 315,075</u>

NOTE J: RISK MANAGEMENT

The District is exposed to various risks of loss including losses related to the District's employer's liability, auto, property, and errors and omissions for which the District carries commercial insurance.

The District also participates in a pool, the SEG Self-Insured Workers' Disability Compensation Fund, with other school districts for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. The District has no liability for additional assessments based on the claims filed against the pool nor do they have any rights to dividends.

NOTE K: SPECIAL EDUCATION UNDERFUNDING SETTLEMENT

Prior to the current year the Durant vs. State of Michigan case was settled and the State was required to reimburse each plaintiff and nonplaintiff District an agreed upon amount for past underfunding of special education. Central Montcalm Public School, a nonplaintiff District, was awarded \$488,104 in the settlement. The funds are being paid as follows:

- a. One-half is being paid over the next ten (10) years, which began November 15, 1998. The restrictions on use of these funds are detailed within State School Aid Act, Section 11F(6). These funds are recorded within the General Fund as categorical State Aid. At the end of the current year all these funds had been expended.

NOTES TO BASIC FINANCIAL STATEMENTS

June 30, 2006

NOTE K: SPECIAL EDUCATION UNDERFUNDING SETTLEMENT - CONTINUED

- b. One-half is being paid over the next fifteen (15) years, which began May 15, 1999. The District borrowed this portion of the settlement amount through the Michigan Municipal Bond Authority on November 15, 1998. These funds were recorded as bond proceeds in the Capital Projects Fund. The bond proceeds may be used for any purpose specified in Section 1351 (a) of the Revised School Code. The debt service payments for these bonds are to be made through an annual legislative appropriation. If the State of Michigan legislature fails to make the annual appropriation the District is under no obligation for the debt payments for that year. The District has pledged the annual State payments to the Michigan Municipal Bond Authority for payment of debt service.

NOTE L: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Section 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amount appropriated.

During the year ended June 30, 2006, the District incurred expenditures in excess of the amounts appropriated as follows:

	<u>Amounts Appropriated</u>	<u>Amounts Expended</u>	<u>Variance</u>
General Fund			
Other financing uses	\$ 455,811	\$ 495,183	\$ 39,372
Special Revenue Funds			
Athletics	211,110	214,512	3,402

NOTE M: SHORT-TERM NOTES

On August 19, 2005, the District paid off the 2004 State Aid note with a principal amount of \$1,380,000. On August 19, 2005, the District issued a short-term State School Aid Anticipation Note in the amount of \$2,000,000 for the purpose of funding operating expenditures until the fiscal year 2006 State Aid payments resumed. The outstanding balance was scheduled to be paid off on August 18, 2006.

REQUIRED SUPPLEMENTARY INFORMATION

Central Montcalm Public School

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2005

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Local sources	\$ 1,211,042	\$ 1,291,742	\$ 1,280,839	\$ (10,903)
State sources	13,315,133	13,095,216	13,140,290	45,074
Federal sources	608,062	748,841	659,550	(89,291)
OTHER FINANCING SOURCES				
Transfer from other funds	-	-	66,521	66,521
Other transactions	206,000	206,000	264,511	58,511
TOTAL REVENUES AND OTHER FINANCING SOURCES	15,340,237	15,341,799	15,411,711	69,912
EXPENDITURES				
INSTRUCTION				
Basic programs	7,640,459	7,542,168	7,327,295	214,873
Added needs	2,002,975	1,837,402	1,811,710	25,692
TOTAL INSTRUCTION	9,643,434	9,379,570	9,139,005	240,565
SUPPORTING SERVICES				
Pupil	628,864	708,354	700,732	7,622
Instructional staff	590,408	628,880	509,793	119,087
General administration	462,585	478,777	452,458	26,319
School administration	1,198,149	1,284,768	1,233,436	51,332
Business and central services	2,821,842	3,305,747	3,136,266	169,481
TOTAL SUPPORTING SERVICES	5,701,848	6,406,526	6,032,685	373,841
DEBT SERVICE				
Principal	90,386	90,386	90,386	-0-
TOTAL EXPENDITURES	15,435,668	15,876,482	15,262,076	614,406

Central Montcalm Public School

General Fund

BUDGETARY COMPARISON SCHEDULE

Year Ended June 30, 2006

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
OTHER FINANCING USES				
Other transactions	\$ 380,000	\$ 25,000	\$ 61,656	\$ (36,656)
Transfers to other funds	167,500	167,500	175,795	(8,295)
Payments to other districts	181,500	263,311	257,732	5,579
TOTAL OTHER FINANCING USES	<u>729,000</u>	<u>455,811</u>	<u>495,183</u>	<u>(39,372)</u>
TOTAL EXPENDITURES AND OTHER FINANCING USES	<u>16,164,668</u>	<u>16,332,293</u>	<u>15,757,259</u>	<u>575,034</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES (UNDER) EXPENDITURES AND OTHER FINANCING USES	(824,431)	(990,494)	(345,548)	644,946
Fund balance, beginning of year	<u>1,539,938</u>	<u>1,539,938</u>	<u>1,539,938</u>	<u>-0-</u>
Fund balance, end of year	<u>\$ 715,507</u>	<u>\$ 549,444</u>	<u>\$ 1,194,390</u>	<u>\$ 644,946</u>

OTHER SUPPLEMENTARY INFORMATION

Central Montcalm Public School

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

June 30, 2006

	Special Revenue Funds		
	Food Service	Athletics	Community Service
ASSETS			
Cash and cash equivalents	\$ 78,149	\$ 1,370	\$ 1,037
Accounts receivable	1,600	-	-
Due from other funds	2,971	87	-
Due from other governmental units	5,890	-	-
Inventories	10,546	-	-
TOTAL ASSETS	<u>\$ 99,156</u>	<u>\$ 1,457</u>	<u>\$ 1,037</u>
LIABILITIES AND FUND BALANCES			
LIABILITIES			
Accounts payable	\$ 7,305	\$ 355	\$ -
Due to other funds	-	-	951
TOTAL LIABILITIES	7,305	355	951
FUND BALANCES			
Reserved for inventories	10,546	-	-
Reserved for debt service	-	-	-
Unreserved			
Designated for capital projects	-	-	-
Undesignated, reported in special revenue funds	81,305	1,102	86
TOTAL FUND BALANCES	<u>91,851</u>	<u>1,102</u>	<u>86</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 99,156</u>	<u>\$ 1,457</u>	<u>\$ 1,037</u>

Debt Service Funds			Capital Projects Funds		
1999 Debt	2005 Debt	Durant Debt Service	Public Improvement	1999 Capital Projects	Total
\$ 63,349	\$ 428,767	\$ -	\$ 7,965	\$ -	\$ 580,637
-	-	-	-	-	1,600
-	-	-	-	-	3,058
-	-	-	-	-	5,890
-	-	-	-	-	10,546
<u>\$ 63,349</u>	<u>\$ 428,767</u>	<u>\$ -0-</u>	<u>\$ 7,965</u>	<u>\$ -0-</u>	<u>\$ 601,731</u>
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 7,660
-	-	-	437	-	1,388
-0-	-0-	-0-	437	-0-	9,048
-	-	-	-	-	10,546
63,349	428,767	-	-	-	492,116
-	-	-	7,528	-	7,528
-	-	-	-	-	82,493
<u>63,349</u>	<u>428,767</u>	<u>-0-</u>	<u>7,528</u>	<u>-</u>	<u>592,683</u>
<u>\$ 63,349</u>	<u>\$ 428,767</u>	<u>\$ -0-</u>	<u>\$ 7,965</u>	<u>\$ -0-</u>	<u>\$ 601,731</u>

Central Montcalm Public School

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES

For the year ended June 30, 2006

	Special Revenue Funds		
	Food Service	Athletics	Community Service
REVENUES			
Local sources	\$ 283,514	\$ 35,682	\$ 31,982
State sources	34,941	-	-
Federal sources	400,787	-	-
OTHER FINANCING SOURCES			
Transfers from other funds	-	175,795	-
TOTAL REVENUES AND OTHER FINANCING SOURCES	719,242	211,477	31,982
EXPENDITURES			
Current			
Food service	707,881	-	-
Athletics	-	214,512	-
Community service	-	-	33,076
Debt service	-	-	-
Capital outlay	-	-	-
OTHER FINANCING USES			
Transfers to other funds	-	-	-
TOTAL EXPENDITURES AND OTHER FINANCING USES	707,881	214,512	33,076
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES AND OTHER FINANCING USES	11,361	(3,035)	(1,094)
Fund balances, beginning of year	80,490	4,137	1,180
Fund balances, end of year	\$ 91,851	\$ 1,102	\$ 86

Debt Service Funds			Capital Projects Funds		Total
1999 Debt	2005 Debt	Durant Debt Service	Public Improvement	1999 Capital Projects	
\$ 768,961	\$ 916,842	\$ -	\$ 329	\$ -	\$ 2,037,310
-	-	17,138	-	-	52,079
-	-	-	-	-	400,787
-	-	-	-	-	175,795
768,961	916,842	17,138	329	-	2,665,971
-	-	-	-	-	707,881
-	-	-	-	-	214,512
-	-	-	-	-	33,076
1,013,279	1,094,321	17,138	-	-	2,124,738
-	-	-	-	67,746	67,746
-	-	-	66,521	-	66,521
1,013,279	1,094,321	17,138	66,521	67,746	3,214,474
(244,318)	(177,479)	-0-	(66,192)	(67,746)	(548,503)
307,667	606,246	-	73,720	67,746	1,141,186
\$ 63,349	\$ 428,767	\$ -0-	\$ 7,528	\$ -0-	\$ 592,683

Principals

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REPORT ON INTERNAL CONTROL AND ON COMPLIANCE AND
OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Education
Central Montcalm Public School
Stanton, Michigan

We have audited the accompanying financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Central Montcalm Public School as of and for the year ended June 30, 2006, which collectively comprise Central Montcalm Public School's basic financial statements and have issued our report thereon dated August 2, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Central Montcalm Public School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Central Montcalm Public School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of basic financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Central Montcalm Public School in a separate letter dated August 2, 2006.

This report is intended solely for the information and use of the administration and Board of Education of Central Montcalm Public School, the federal awarding agencies, and the pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 2, 2006

Central Montcalm Public School

**SUPPLEMENTARY INFORMATION
TO FINANCIAL STATEMENTS
(FEDERAL AWARDS)**

June 30, 2006

Central Montcalm Public School

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REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

Board of Education
Central Montcalm Public School
Stanton, Michigan

Compliance

We have audited the compliance of Central Montcalm Public School with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that is applicable to the major Federal program for the year ended June 30, 2006. Central Montcalm Public School's major Federal program is identified in the summary of auditor's results section of the accompanying schedule of findings. Compliance with the requirements of laws, regulations, contracts and grants applicable to the major Federal programs is the responsibility of Central Montcalm Public School management. Our responsibility is to express an opinion on Central Montcalm Public School's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major Federal program occurred. An audit includes examining, on a test basis, evidence about Central Montcalm Public School's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on Central Montcalm Public School's compliance with those requirements.

In our opinion, Central Montcalm Public School complied, in all material respects, with the requirements referred to above that are applicable to the major Federal programs for the year ending June 30, 2006.

Internal Control Over Compliance

The management of Central Montcalm Public School is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to Federal programs. In planning and performing our audit, we considered Central Montcalm Public School's internal control over compliance with requirements that could have a direct and material effect on the major Federal programs in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one (1) or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major Federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

Schedule of Expenditures of Federal Awards

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Central Montcalm Public School as of and for the year ended June 30, 2006, and have issued our report thereon dated August 3, 2006. Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise Central Montcalm Public School's basic financial statements. The accompanying schedule of expenditures of Federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

This report is intended solely for the information and use of the Board of Education and administration of Central Montcalm Public School, the pass-through entities, and the Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 2, 2006

Central Montcalm Public School

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

For the Year Ended June 30, 2006

Federal Grantor / Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount
U.S. DEPARTMENT OF EDUCATION			
Passed Through State Department of Education			
E.S.E.A. Title I ^(e)	84.010		
2005-06 Regular - Part A		0615300506	\$ 477,924
2004-05 Carryover - Part A		0515300506	11,226
2004-05 Regular - Part A		0515300405	<u>457,498</u>
			946,648
Adult Education - State Grant Program	84.002		
2005-06		061130611106	45,300
Title V	84.298		
2005-06		0502500506	2,661
2005-06		0602500506	<u>7,296</u>
			9,957
Technology Literacy Challenge Grants	84.318		
2005-06		0542900506	5,047
2005-06		0642900506	<u>9,602</u>
			14,649
Improving Teacher Quality	84.367		
2005-06		0505200506	51,834
2004-05		0505200405	80,673
2005-06		0605200506	<u>130,927</u>
			263,434
Hurricane Education Recovery	84.938		
2005-06		0641201	93
Passed Through State Department of Education and Kent Intermediate School District			
Drug-Free Program	84.186		
2005-06		0628600506	9,471
2004-05		0428600405	<u>5,100</u>
			<u>14,571</u>
TOTAL U.S. DEPARTMENT OF EDUCATION			1,294,652
U.S. DEPARTMENT OF HOMELAND SECURITY			
Passed Through Department of State Police			
2003 State Homeland Security Grant Program	97.004	N/A	6,324

<u>(Memo Only)</u> <u>Prior Years'</u> <u>Expenditures</u>	<u>Balance</u> <u>July 1, 2005</u> <u>Accrued or</u> <u>(Deferred)</u> <u>Revenue</u>	<u>Cash</u> <u>Receipts</u> <u>In-Kind</u> <u>Payments</u>	<u>Expenditures</u>	<u>Balance</u> <u>June 30, 2006</u> <u>Accrued or</u> <u>(Deferred)</u> <u>Revenue</u>
\$ -	\$ -	\$ 305,588	\$ 436,904	\$ 131,316
-	-	11,226	11,226	-0-
457,498	106,816	106,816	-	-0-
457,498	106,816	423,630	448,130	131,316
-	-	45,300	45,300	-0-
-	-	2,661	2,661	-0-
-	-	4,635	4,635	-0-
-0-	-0-	7,296	7,296	-0-
-	-	-	5,047	5,047
-	-	-	2,248	2,248
-0-	-0-	-0-	7,295	7,295
-	-	-	51,834	51,834
80,673	80,673	80,673	-	-0-
-	-	60,704	86,278	25,574
80,673	80,673	141,377	138,112	77,408
-	-	-	93	93
-	-	7,000	7,000	-0-
5,100	1,400	1,400	-	-0-
5,100	1,400	8,400	7,000	-
543,271	188,889	626,003	653,226	216,112
-	-	6,324	6,324	-0-

Central Montcalm Public School

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

For the Year Ended June 30, 2006

Federal Grantor / Pass-Through Grantor Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program or Award Amount
U.S. DEPARTMENT OF AGRICULTURE			
Passed Through State Department of Education			
School Breakfast Program	10.553 ^(f)		
2005-06		061970	\$ 79,678
2004-05		051970	<u>72,051</u>
			151,729
Passed Through State Department of Education			
National School Lunch Program	10.555 ^(f)		
2005-06		061950, 061960	233,669
2004-05		051950, 051960	<u>247,339</u>
			481,008
Food Donation ^(a)	10.550		
Entitlement commodities		59125	40,563
Bonus commodities		59125	<u>4,113</u>
			<u>44,676</u>
TOTAL U.S. DEPARTMENT OF AGRICULTURE			<u>677,413</u>
TOTAL FEDERAL AWARDS			<u><u>\$ 1,978,389</u></u>

<u>(Memo Only)</u> <u>Prior Years'</u> <u>Expenditures</u>	<u>Balance</u> <u>July 1, 2005</u> <u>Accrued or</u> <u>(Deferred)</u> <u>Revenue</u>	<u>Cash</u> <u>Receipts</u> <u>In-Kind</u> <u>Payments</u>	<u>Expenditures</u>	<u>Balance</u> <u>June 30, 2006</u> <u>Inventory/</u> <u>Cash or</u> <u>(Payables)</u>
\$ -	\$ -	\$ 79,678	\$ 79,678	\$ -0-
62,967	-	9,084	9,084	-0-
62,967	-0-	88,762	88,762	-0-
-	-	233,669	233,669	-0-
213,659	-	33,680	33,680	-0-
213,659	-0-	267,349	267,349	-0-
-	-	40,563	40,563 ^(c)	-0-
-	-	4,113	4,113 ^(c)	-0-
-0-	-0-	44,676	44,676	-0-
276,626	-0-	400,787	400,787	-0-
<u>\$ 819,897</u>	<u>\$ 188,889</u>	<u>\$ 1,033,114</u>	<u>\$ 1,060,337</u> ^(b)	<u>\$ 216,112</u>
		(d)	(g)	

Central Montcalm Public School

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

June 30, 2006

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the Federal grant activity of June 30, 2006, Michigan and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*.

NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

The following descriptions identified below as (a) through (g) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards.

- (a) The current year expenditures for the Food Donation Program are determined based on the 2002/03 guidance provided in the Michigan Department of Education Administrative Policy Number 7. The amounts reported in this schedule as commodities received were taken from the Recipient Entitlement Balance Report which is in agreement in all material respects with the District's reported amounts.
- (b) The expenditures reported in this schedule are in agreement with the amounts reported in the financial statements and financial reports. The financial reports tested, including claims for advances and reimbursements, were materially correct, complete, accurate, and timely and contain information that is supported by the books and records from which the financial statements have been prepared.
- (c) The amount of out of conditioned commodities due to spoilage or shrinkage included in expenditures is immaterial to the Schedule of Expenditures of Federal Awards taken as a whole.
- (d) The amounts reported in this schedule as cash received are in agreement with the current payment amounts in the Grants Section Auditor's Report.
- (e) Denotes program tested as "major program".
- (f) Denotes programs required to be clustered by the United States Department of Agriculture.
- (g) Agrees to total revenues from Federal sources per financial statements.

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA



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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

Board of Education
Central Montcalm Public School
Stanton, Michigan

We have audited the financial statements of the governmental activities, each major fund, and the aggregate remaining fund information of Central Montcalm Public School, Michigan as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements and have issued our report thereon dated August 3, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Central Montcalm Public School's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

We noted certain matters that we reported to management of Central Montcalm Public School in a separate letter dated August 2, 2006.

This report is intended solely for the information and use of the Board of Education and administration of Central Montcalm Public School, the pass-through entities, and Federal awarding agencies and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 2, 2006

Central Montcalm Public School

SCHEDULE OF FINDINGS

For the Year Ended June 30, 2006

SUMMARY OF AUDITOR'S RESULTS

An unqualified opinion was issued on the basic financial statements. We noted no instances of noncompliance with laws, regulations, contracts, and grants that could have a direct and material effect on the basic financial statements.

An unqualified opinion was issued on compliance for major programs. We did not disclose any findings related to internal controls or compliance related to the major program tested.

The major program tested to cover 25 percent of the total Federal expenditures was the Title I (CFDA 84.010). Total Federal expenditures for the year ended June 30, 2006 for the major program was \$448,130, which is approximately 42 percent of total Federal expenditures. Based on the criteria of OMB Circular A-133, Central Montcalm Public School qualified as a low-risk auditee for the year ended June 30, 2006.

The District had two (2) Type A programs: the Title I (CFDA 84.010; \$448,130) and the Child Nutrition Cluster (\$356,111), which included the School Breakfast program (CFDA 10.553) and National School Lunch program (CFDA 10.555). Programs of less than \$300,000 were determined to be Type B programs.

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Control Over the Financial Statements.

None

Findings Related to Compliance with Requirements Related to the Financial Statements.

None

Findings Related to Compliance with Requirements Applicable to Each Major Program and on Internal Control Over Compliance in Accordance with OMB Circular A-133.

None

Central Montcalm Public School

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

For the Year Ended June 30, 2006

FINDINGS/NONCOMPLIANCE

Reportable Conditions Related to Internal Controls Over the Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

No prior audit findings.

Findings Related to Compliance with Requirements Applicable to Federal Awards and on Internal Control Over Compliance in Accordance with OMB Circular A-133.

No prior audit findings.

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MANAGEMENT LETTER

To the Board of Education
Central Montcalm Public School
Stanton, Michigan

As you know, we have recently completed our audit of the records of Central Montcalm Public School as of and for the year ended June 30, 2006. In connection with the audit, we feel that certain changes in your accounting and administrative procedures would be helpful in improving management's control and the operational efficiency of the accounting and administrative functions. These suggestions are a result of our evaluation of the internal control structure and our discussions with management.

1. Budgets should be adopted for all funds and monitored and amended when necessary.

As noted in the annual financial statements, budgeted activities of the District exceeded the amounts appropriated. The variances noted were in the General and Special Revenue Funds.

The Michigan Public Act 621 of 1978, as amended, provides that the District shall not incur expenditures in excess of the amounts appropriated.

We suggest the District monitor expenditures against the adopted budget on a periodic basis, preferable monthly. Appropriate budget amendments should be made as needed.

2. The decentralized accounting systems should be reviewed and modified to assure adequate internal controls are in place.

Various decentralized activities of the District (i.e., Student Activities) operate accounting systems separately from the Central Business office. Summarized financial information is accumulated on these activities and recorded periodically in the centralized accounting system.

During our analysis and testing of the internal control structure related to these decentralized accounting systems, we noted the following areas that we feel could be improved:

- a. Upper Elementary - The building secretary, without counting the funds brought to the building office, writes a receipt to the teacher/advisor bringing the funds to be deposited for the amount the teacher/advisor indicates is present. Also, minimal information is provided back to the teacher/advisor on their monthly account balances. This issue was noted and reported in our audit comments last year.

We suggest the secretary, in the presence of the individual bringing funds to be deposited, count the money and issue a receipt. Each activity should also receive monthly reports showing beginning balances, funds received and disbursed, and ending balances.

2. The decentralized accounting systems should be reviewed and modified to assure adequate internal controls are in place - continued.

- b. Stanton and Sheridan Elementaries - The individuals bringing funds to the building secretaries do not count and fill out a deposit slip prior to leaving the funds with the secretaries. The secretaries then count the money and fill out a deposit slip and do not issue a receipt back to the individual depositing funds with them. Also, minimal information is provided back to the teacher/advisor on their monthly account balances. This issue was noted and reported in our audit comments last year.

We suggest each individual depositing funds count the money and fill out a deposit slip prior to bringing the funds to the secretary in their building. The secretary should then count the money in the presence of the individual depositing funds and write a receipt. Each activity should also receive monthly reports showing beginning balances, funds received and disbursed, and ending balances.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the financial statements, and this report does not affect our report on the financial statements dated August 2, 2006.

This report is intended solely for the information and use of the Board of Education and administration of Central Montcalm Public School and should not be used for any other purpose.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss any or all of these suggestions with you and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

August 2, 2006